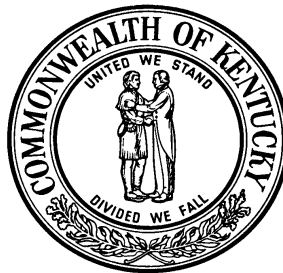


**REPORT OF THE AUDIT OF THE  
FORMER GREENUP COUNTY  
CLERK**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**  
**GREENUP COUNTY FORMER CLERK**

**For The Year Ended**  
**December 31, 2006**

The Auditor of Public Accounts has completed the former Greenup County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

**Financial Condition:**

Excess fees increased by \$86,647 from the prior year, resulting in excess fees of \$99,570 as of December 31, 2006. Revenues increased by \$1,149,521 from the prior year and expenditures increased by \$1,062,874.

**Debt Obligations:**

The County Clerk's office was committed to the following lease agreements as of December 31, 2006:

- A. The office of the County Clerk was committed to a lease agreement with Software Management for computer equipment and software. The agreement is renewable on an annual basis and requires monthly payments of \$1,896.
- B. The office of the County Clerk was committed to an operating lease agreement with Chito Ymalay, M.D., Greenup County, Kentucky, for office space at the Flatwoods branch of the County Clerk's office. The agreement required an annual payment of \$9,000 and expired on December 31, 2006.
- C. The office of the County Clerk is committed to an operating lease agreement with Pitney Bowes Credit Corporation for a mailing machine. The agreement commenced on October 30, 2005, and requires quarterly payments of \$510 for 5 years. The total balance of the agreement was \$28,560 as of December 31, 2006.
- D. The office of the County Clerk is committed to an operating lease agreement with Pitney Bowes Credit Corporation for a copier. The agreement commenced on September 6, 2002, and required monthly payments of \$164 for 4 years. The copier was paid in full by October 28, 2006.

**Report Comment:**

- The Former Greenup County Clerk Failed To Provide Adequate Oversight Over Financial Reporting

**Deposits:**

The former County Clerk's deposits were uninsured and uncollateralized by bank securities or bonds as of July 10, 2006 as follows:

- Uncollateralized and Uninsured     \$322,265



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert Carpenter, Greenup County Judge/Executive  
The Honorable Ella H. Hall, Former Greenup County Clerk  
The Honorable Pat Hieneman, Greenup County Clerk  
Members of the Greenup County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Greenup County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2007 on our consideration of the former County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Robert Carpenter, Greenup County Judge/Executive  
The Honorable Ella H. Hall, Former Greenup County Clerk  
The Honorable Pat Hieneman, Greenup County Clerk  
Members of the Greenup County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Greenup County Clerk Failed To Provide Adequate Oversight Over Financial Reporting

This report is intended solely for the information and use of the former County Clerk and Fiscal Court of Greenup County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

May 24, 2007



GREENUP COUNTY  
 ELLA H. HALL, FORMER COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	58,962
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Fiscal Court		47,518
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	784,099
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Usage Tax		3,206,849
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Tangible Personal Property Tax		2,805,400
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Other-

Marriage Licenses		19,476
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Deed Transfer Tax		95,478
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Delinquent Tax	1,616,891	8,528,193
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	24,656	
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Real Estate Mortgages	66,321	
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Chattel Mortgages and Financing Statements	85,462	
--	--------	--

Powers of Attorney	3,345	
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All Other Recordings	87,175	
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Charges for Other Services-

Postage	1,124	
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Copywork	7,961	276,044
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Interest Earned		6,976
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Total Revenues		8,917,693
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The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY  
 ELLA H. HALL, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 595,563

Usage Tax 3,117,096

Tangible Personal Property Tax 961,838

Licenses, Taxes, and Fees-

Fish and Game Licenses 1,777

Delinquent Tax 165,981

Legal Process Tax 47,577

Affordable Housing Trust Fee 8,784 \$ 4,898,616

Payments to Fiscal Court:

Tangible Personal Property Tax 173,961

Delinquent Tax 115,934

Deed Transfer Tax 90,009 379,904

Payments to Other Districts:

Tangible Personal Property Tax 1,547,436

Delinquent Tax 966,149 2,513,585

Payments to Sheriff

9,107

Payments to County Attorney

226,692

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 347,375

Employee Benefits-

Employer's Share Social Security 30,764

Employer's Paid Health Insurance 24,000

Contracted Services-

Cleaning 6,627

Contracted Services 6,980

Professional Services 71,165

Materials and Supplies-

Office Supplies 27,218

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY  
 ELLA H. HALL, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	971
Rent		11,908
Dues		1,222
Postage		8,905
Utilities		10,313
Advertising		403
Preparation of Tax Bills		5,287
Election Expense		96,608
Miscellaneous		573
Maintenance and Repairs		671

Capital Outlay-

Office Equipment		29,576
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Debt Service:

Lease Purchases	34,235	\$	714,801
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Total Expenditures \$ 8,742,705

Net Revenues 174,988

Less: Statutory Maximum 71,818

Excess Fees 103,170

Less: Expense Allowance 3,600

Excess Fees Due County for 2006 99,570

Payment to Fiscal Court - February 28, 2007 75,000

Balance Due Fiscal Court at Completion of Audit \$ 24,570

\*Note - The former County Clerk presented a check to the County Treasurer for the balance due Fiscal Court on May 30, 2007.

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GREENUP COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2006  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of July 10, 2006, \$322,265 of public funds were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured                      \$322,265

GREENUP COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Grant

The County Clerk's office received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$8,890 in July 2003. The total grant of \$8,890 was expended prior to January 1, 2005. \$244 of interest had accumulated on this grant and was left in the account as of December 31, 2006.

Note 5. Leases

The County Clerk's office was committed to the following lease agreements as of December 31, 2006:

- A. The office of the County Clerk was committed to a lease agreement with Software Management for computer equipment and software. The agreement is renewable on an annual basis and requires monthly payments of \$1,896.
- B. The office of the County Clerk was committed to an operating lease agreement with Chito Ymalay, M.D., Greenup County, Kentucky, for office space at the Flatwoods branch of the County Clerk's office. The agreement required an annual payment of \$9,000 and expired on December 31, 2006.
- C. The office of the County Clerk is committed to an operating lease agreement with Pitney Bowes Credit Corporation for a mailing machine. The agreement commenced on October 30, 2005, and requires quarterly payments of \$510 for 5 years. The total balance of the agreement was \$28,560 as of December 31, 2006.
- D. The office of the County Clerk was committed to an operating lease agreement with Pitney Bowes Credit Corporation for a copier. The agreement commenced on September 6, 2002, and required monthly payments of \$164 for 4 years. The copier was paid in full by October 28, 2006.

Note 6. Escrow Account

The County Clerk's office had a certificate of deposit and a checking account, totaling \$59,951 as of December 31, 2006. The account originated from unclaimed funds from the purchase of land for public use. The owners and heirs could not be located. The last transaction in the accounts occurred in November 1979. This account was turned over to the new County Clerk.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Robert Carpenter, Greenup County Judge/Executive  
The Honorable Ella H. Hall, Former Greenup County Clerk  
The Honorable Pat Hieneman, Greenup County Clerk  
Members of the Greenup County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Greenup County Clerk for the year ended December 31, 2006, and have issued our report thereon dated May 24, 2007. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Greenup County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Greenup County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Greenup County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Former Greenup County Clerk Failed To Provide Adequate Oversight Over Financial Reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Greenup County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The former Greenup County Clerk's response to the findings identified in our audit is included in the accompanying comment and recommendation. We did not audit the former County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Greenup County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

May 24, 2007

COMMENT AND RECOMMENDATION

GREENUP COUNTY  
ELLA H. HALL, FORMER COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Greenup County Clerk Failed To Provide Adequate Oversight Over Financial Reporting

The former County Clerk outsourced the bookkeeping function of her office to segregate duties, but failed to exercise oversight that might have detected deficiencies in financial reporting. The Fourth Quarter Financial Report was materially misstated due to liabilities in the amount of \$290,233 being omitted. Improvement in internal control is needed to ensure that proper information is being submitted on time and is not misleading to users of the information. This internal control deficiency creates more than a likely potential for material misstatement in the financial statements. We recommend the Clerk's office improve internal control procedures related to financial reporting, and be more involved in the day-to-day operations of the office.

*Former County Clerk's Response:*

The former County Clerk and the CPA firm that worked for her presented the auditors with the following written response.

*Clerk didn't pay attention to financial side*

*Comment by Ella Hall that she didn't pay as much attention and didn't worry about the finances was misinterpreted. Working for the clerk in various capacities for over 40 years and performing detailed tasks in payroll, bank reconciliations, bookkeeping, preparation of monthly reports, etc., as Clerk I didn't perform those tasks in detail and hiring the CPA firm that trained me in most of those tasks with 30 years experience, I didn't worry about them being performed accurately. I still maintained control over all cash and deposits, reviewed payroll and monthly reports, and had a regularly scheduled meeting with the CPA's to review the financial statement of excess fees and a comparative revenue and expense report to compare trends and estimate excess fees. I believe the record amount of excess fees returned to the County is the best indication of the attention I spent on the finances. So I didn't have to worry about them as much and refocused my duties as County Clerk and the overall operations of the entire Clerk's office, as previous Clerks had done before me. I'll stand by my record on this issue.*

*Segregation of Duties*

*Although I understand this is a regular automatic common issue, I do feel that by hiring the independent CPA firm and further segregating the duties among the firm and employees, that segregation was accomplished as well as possible given the number of staff, without incurring unnecessary excessive costs in additional personnel with no corresponding job duties to support their employment. The savings incurred in this process contributed to the unusually large amount of excess fees returned to the County.*

*Fourth Quarter Status Report*

*Upon explanation by the State Auditors during the exit conference, this comment could be more appropriately titled, "Failure of Former Clerk to prepare the Fourth Quarter Status Report on a Modified Cash Basis." It should be noted that I prepared the report exactly the same for 40 years on the cash basis based on instructions from Frankfort. It should also be noted that this issue took*

GREENUP COUNTY  
ELLA H. HALL, FORMER COUNTY CLERK  
COMMENT AND RECOMMENDATION  
For The Year Ended December 31, 2006

The Former Greenup County Clerk Failed To Provide Adequate Supervision Over Financial Reporting (Continued)

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*Former County Clerk's Response: (Continued)*

*on different significance from previous audits when the State Auditor focused on this report as the "Financial Statement" required by KRS to perform the audit. When in fact, a complete set of Financial Records, including a financial statement prepared on the Modified Cash Basis, detailed transactions for the entire period covered by the audit, a detailed general ledger, audit analysis schedules, etc., provided in a notebook to the Auditors exactly the same as in the past. State Auditors acknowledged the receipt of same and that the Excess Fees determined by their audit matched the financial statement provided by the Former Clerk, with the lone exception being additional salary the Former Clerk was due but not taken in the amount of \$1,300. Therefore, the adjustment would be deemed immaterial and not warrant this comment.*

Auditor's Reply:

The former County Clerk requested the Auditor of Public Accounts (APA) to reconsider the inclusion of this comment in the audit report. It is the APA's decision that this finding should be included because the Fourth Quarter Financial Report submitted to the Governor's Office for Local Development was misstated by \$290,223.

PRIOR YEAR:

The Former County Clerk's Office Lacks Adequate Segregation Of Duties

